

A nonprofit organization which makes funds available to authors and editors for preparing teaching materials and writing textbooks, and, under the terms of the contract with the publisher, receives royalties from sales of the published materials and then shares them with those individuals, does not qualify for exemption from Federal income tax as a charitable, educational or literary organization under section 501(c)(3) of the Internal Revenue Code of 1954.

Advice has been requested whether under the circumstances described below an organization created to meet the need for more satisfactory teaching materials and textbooks in economics and related fields qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization makes funds available to authors and editors for preparing teaching materials and writing textbooks. The individuals are selected on the basis of their ability as scholars or educators. The organization contracts with commercial publishing firms for the publication of these materials which are used primarily by colleges and universities.

The contracts between the organization and the publishers provide that the publishers pay all publication costs and a royalty to the organization on sales of the publication. In return, the publisher receives the copyright, publishing, and selling rights. The agreement between the organization and the editors and authors provides that the royalty income will first be applied to pay for the costs of preparing the materials for publication, including funds to authors and editors. The remaining royalty will be divided into specific percentages between the organization and the editors and authors.

The organization receives funds from contributions, royalties from sales of publications, and loans. Its expenses are for stationery, office help, statistical work, research, proofreading, advertising, legal and accounting fees, payment of royalties and funds to authors and editors, and repayment of loans.

Section 501(c)(3) of the Code provides, in part, for the exemption from Federal income tax of corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Although educational interests are served by the publication of better teaching materials, the facts in this case show only an enterprise conducted in an essentially commercial manner, in which all the participants expect to receive a monetary return. Accordingly, it is held that the instant organization does not

qualify for exemption from Federal income tax as an organization described in section 501(c)(3) of the Code.

Compare Revenue Ruling 66-103, page 134, this Bulletin, wherein an organization which makes grants and awards to scholars and artists, and which does not receive any monetary benefit from the activity, is held to qualify for exemption from Federal income tax under section 501(c)(3) of the Code.